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Somerville Industries Limited



1966 ANNUAL REPORT



Somerville Industries Limited

Directors

J. G. Church
F. C. Lennox
G. C. Metcalf
F. J. Orr
A. G. Shillington
W. Garfield Weston

Officers

G. C. Metcalf — Chairman of the Board
F. C. Lennox — President and General Manager
A. G. Shillington — Executive Vice-President
J. G. Church — Vice-President, Packaging
A. B. Van der Ende — Secretary-Treasurer

Management Committees

Head Office:

F. C. Lennox — Chairman
J. G. Church — Vice-President, Packaging
A. G. Shillington — Executive Vice-President
A. B. Van der Ende — Secretary-Treasurer
T. E. White — Manager, Industrial and Public Relations

Packaging:

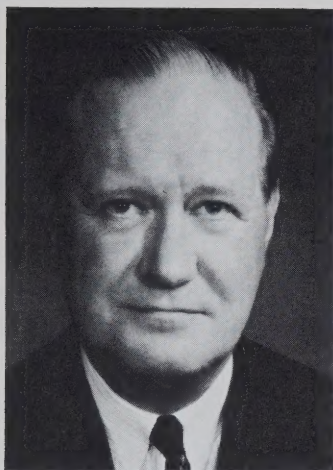
J. G. Church — Chairman
E. J. Dewhurst — Vice-President and General Manager
Canadian Folding Cartons Limited
K. W. Keene — General Manager, London Division and Winnipeg
I. A. MacDonald — General Manager, Consolth Division

Special Products:

A. G. Shillington — Chairman
J. W. Feightner — General Manager, Plastics Division
H. W. Ferguson — Manager, Display Division
F. J. Orr — General Manager, Panel Division and
Somerville Automotive Trim Limited
J. G. Watson — Manager, Strathmore Division
B. L. Morin — Manager, Games Division

Transfer Agent

The Canada Trust Company
Toronto, London, Montreal, Winnipeg and Vancouver



To Somerville Shareholders:

Summary

For the ninth consecutive year, all previous Sales and Profit records were surpassed in 1966:

Net Sales increased to \$39,712,731—up \$5,241,306 or 15.2% over 1965.

Net Earnings, including a capital profit realized from the sale of fixed assets, increased to \$2,096,621, after all charges—up \$276,627 or 15.2% over 1965.

Operations

PACKAGING AND RELATED PRODUCTS

Early in 1966, the final conversion of our equipment to produce plastic-coated milk cartons was completed. By the summer of 1966, we were producing these superior cartons for the entire Canadian market at our three locations in London, Ontario, Winnipeg, Manitoba and Montreal, Quebec.

All during 1966, our complete range of custom-designed packaging products met, once again, with an enthusiastic customer response—a trend originally started in 1886.

Total Somerville packaging sales increased by 17.8% over the preceding year. One of our major goals for 1967 is to maintain or improve this rate of growth.

To maintain our packaging equipment in peak operating condition, we spent a further \$813,859 in 1966 on improvement, replacement and modernization. In addition to this, a \$510,843 plant and office extension was made to our Consolith plant in Montreal.

Special Products

AUTOMOTIVE PANEL DIVISION

Concurrent with the pronounced sales decline of 1967 model automobiles in Canada, Somerville's sales of automotive component parts and related products diminished during the latter part of 1966, adversely affecting the profitability of this Division. Thanks to peak production earlier in the year, however, the total 1966 sales volume was ahead of 1965. With the addition of our new 90,000 sq. ft. production facilities at Windsor, Ontario (successfully established during 1966), we are ready to cope with the expected increased demands of the soon to be revitalized automotive industry.

Aggressive plans are also underway to further diversify the operations at our Scarborough plant, to take advantage of hitherto untried practical applications of newly discovered processing materials.

GAMES AND STRATHMORE DIVISIONS

The combined sales volume of games, crackers and paper novelties increased by 11.6% over 1965. A slight decline of profits, however, resulted from rising production costs.

SOMERVILLE PLASTICS

1966 was a year of change at Somerville Plastics:

The small Vancouver plant was closed in September, 1966 and the production of all plastic hot and cold drink cups was centralized at our modern plant in Bramalea, Ontario.

After careful consideration, unprofitable lines of plastic toys and novelties were discontinued and all stock on hand disposed of at year's end.

We improved and modernized the equipment at this Division, at a cost of \$264,820.

We then directed all our efforts towards the production and sale of high quality custom-molded plastic products used by some of the finest Companies in Canada. Encouraging results are now being obtained and we are gaining an excellent reputation in this field.

DISPLAY DIVISION

1966 was one of the most successful years in the history of the Display Division, both from a sales and a profit standpoint. 1967 has started off well and we are confident that we can still further increase our share of the competitive point-of-purchase display market.

Properties and Equipment

Capital expenditures during 1966 amounted to \$1,761,913. This includes a \$510,843 plant and office extension to the Consolth Division in Montreal. 1967 expenditures are estimated at close to \$1,700,000.

Working Capital

On December 31, 1966, a \$2,000,000 Common share dividend was declared, reducing working capital to \$5,419,689. Current Assets at the end of 1966 were \$13,707,883 against Current Liabilities of \$8,288,194—a ratio of 1.7 to 1.

Earnings

1966 profits from operations plus a \$221,753 non-taxable capital profit realized from fixed assets, less \$97,302 moving and starting-up expenses at Windsor, amounted to \$3,227,621. Although we claimed maximum capital cost allowances for the year, the benefits were not as great as in previous years. Consequently, our income tax liability for the year increased by 26.8% to \$1,131,000.

Final Net Earnings for 1966, after all charges, were \$2,096,621—an increase of \$276,627 or 15.2% over 1965 results.

General

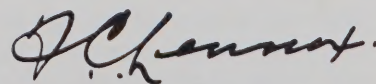
During 1966, the Company's long-range program of product diversification began to crystallize in a positive way. As mentioned above, product lines and productive facilities were refined and improved in the Plastics Division, to the extent that our progress in the custom molding field was greatly accelerated. The point-of-purchase Display Division has been progressively improved and has become a successful operation.

Overall results of the Canada/U.S.A. tariff agreement, concerning the automotive industry, have been disappointing for the various Panel Division operations, in spite of earlier optimism. After better than a year's experience, it has become apparent that relatively small Canadian plants find it difficult to compete with the enormous output of U.S. automotive feeder companies. The decline in sales of the 1967 model automobiles further aggravated the situation. However, the search for alternative product lines has been aggressively continued. This, coupled with an anticipated increase in the sale of the 1968 models, is expected to improve conditions for the future.

We are also continuing wide-ranging improvements to the Company's packaging operations. These include expanded plant and equipment facilities, as well as the addition of new products and the up-grading of existing product lines.

The only major change affecting senior management personnel was the retirement of G. C. Snell in September. Mr. Snell, who was President of Canadian Folding Cartons Limited and a Director of the Company, was instrumental in the founding of C.F.C.L. and a major contributor to the growth of that organization.

Finally, we wish to express our thanks to all members of the Somerville Industries' staff, and our customers and suppliers, for their co-operation and support during the year past. With their continued loyalty, we are confident that 1967 will continue the Company's long pattern of growth and success.



President and General Manager



Consolidated Statement of Earnings and Retained Earnings for the year ended December 31, 1966

	1966	1965
NET SALES	\$39,712,731	\$34,471,425
Costs, excluding expenses shown below	<u>35,438,774</u>	<u>30,725,841</u>
OPERATING PROFITS	\$ 4,273,957	\$ 3,745,584
Deduct:		
Moving and starting-up expenses of new plant	\$ 97,302	\$ —
Bond Interest	191,602	205,827
Depreciation	<u>979,185</u>	<u>827,763</u>
	\$ 1,268,089	\$ 1,033,590
Operating Profits before Income Taxes	\$ 3,005,868	\$ 2,711,994
Provision for Income Taxes	<u>1,131,000</u>	<u>892,000</u>
NET OPERATING PROFITS FOR YEAR	\$ 1,874,868	\$ 1,819,994
Profit realized from fixed assets	<u>221,753</u>	<u>—</u>
NET PROFITS TRANSFERRED TO RETAINED EARNINGS	\$ 2,096,621	\$ 1,819,994
Retained Earnings at beginning of year	<u>9,966,928</u>	<u>10,253,306</u>
	\$12,063,549	\$12,073,300
Deduct:		
Dividends on Common Shares	\$ 2,000,000	\$ 2,000,000
Dividends on Preferred Shares	<u>106,141</u>	<u>106,372</u>
	\$ 2,106,141	\$ 2,106,372
RETAINED EARNINGS AT END OF YEAR	\$ 9,957,408	\$ 9,966,928
(1966 Remuneration received by Directors: \$185,500)		



Somerville Industries Limited

AND ITS WHOLLY OWNED SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1966

	1966	1965
CURRENT ASSETS		
Cash	\$ 950,583	\$ 580,392
Accounts receivable (less allowance 1966 \$84,550; 1965 \$83,554)	4,492,552	4,527,560
Inventories (valued at lower of cost or market)	8,115,901	7,264,338
Prepaid expenses	148,847	44,638
	<u>\$13,707,883</u>	<u>\$12,416,928</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,994,611	\$ 3,234,071
Income taxes payable (Note 3)	554,416	339,374
Other taxes payable	190,872	181,937
Bond sinking fund payments due in 1967	271,779	263,222
Dividends payable	2,026,516	2,026,593
Advances from Parent Company	2,250,000	—
	<u>\$ 8,288,194</u>	<u>\$ 6,045,197</u>
WORKING CAPITAL	<u>\$ 5,419,689</u>	<u>\$ 6,371,731</u>
SINKING FUND RE PREFERRED SHARES —government and industrial bonds at market values (cost \$115,015)	\$ 102,816	\$ 100,340
DEFERRED RECEIVABLES	\$ 87,089	\$ 37,500
FIXED ASSETS: Land, buildings, machinery and equipment (Note 1)	\$19,148,538	\$17,964,563
Less: Accumulated depreciation	7,327,486	6,733,203
	<u>\$11,821,052</u>	<u>\$11,231,360</u>
TOTAL ASSETS, LESS CURRENT LIABILITIES	<u>\$17,430,646</u>	<u>\$17,740,931</u>
LONG TERM DEBT (Note 2)	2,938,371	3,210,150
NET ASSETS (being shareholders' equity)	<u>\$14,492,275</u>	<u>\$14,530,781</u>
SHAREHOLDERS' EQUITY		
Preferred shares, \$50 par value (authorized 97,990 shares) —1953 series, cumulative, \$2.80 sinking fund, redeemable—issued, 37,880 shares	\$ 1,894,000	\$ 1,899,500
Common shares, without par value (authorized 500,000 shares)—issued, 356,300 shares	356,300	356,300
Retained earnings	9,957,408	9,966,928
Excess of appraised value of fixed assets over cost, less sundry charges	2,284,567	2,308,053
TOTAL SHAREHOLDERS' EQUITY	<u>\$14,492,275</u>	<u>\$14,530,781</u>

Signed on behalf of the Board:
F. C. LENNOX, Director.
A. G. SHILLINGTON, Director.

NOTES TO CONSOLIDATED STATEMENTS

1. The value of buildings, machinery and equipment is shown at cost or based on appraisals made in 1951 and 1955. Other fixed assets and additions subsequent to the appraisals have been shown at cost.

2. Long term debt:	<u>1966</u>	<u>1965</u>
First mortgage bonds: Authorized \$10,000,000.		
Series A, 5 $\frac{1}{4}$ % sinking fund due October 15, 1973, Outstanding	\$1,411,000	\$1,574,000
Less: 1967 sinking fund provision and cash in hands of trustee	<u>172,629</u>	<u>163,850</u>
	\$1,238,371	\$1,410,150
Series B, 6 % sinking fund due June 15, 1977	\$1,800,000	\$1,900,000
Less: 1967 sinking fund provision	<u>100,000</u>	<u>100,000</u>
	\$1,700,000	\$1,800,000
Total long term debt	<u>\$2,938,371</u>	<u>\$3,210,150</u>

3. The taxes on income for the current year are after a reduction of \$382,000 because of the Company's intention to claim for tax purposes depreciation to the extent of \$735,000 in excess of the amount provided for the year in the accounts. The net accumulated amount to date by which taxes otherwise payable have been so reduced is \$2,358,000.

4. Long term leases entered into by the companies extend into the year 1988. Under the terms of such leases aggregate rentals amount to approximately \$2,812,500. Maximum annual rentals payable thereunder for the years 1967 to 1972 are approximately \$149,500.

5. Included in accounts receivable is an amount of \$527,705 owing from, and in accounts payable an amount of \$277,921 owing to, affiliated and associated companies.

AUDITORS' REPORT

To the Shareholders of Somerville Industries Limited:

We have examined the consolidated statement of financial position of Somerville Industries Limited and its wholly owned subsidiaries as at December 31, 1966 and the consolidated statements of earnings and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated statements of financial position, earnings and retained earnings present fairly the combined financial position of the companies as at December 31, 1966 and the results of their combined operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada
January 21, 1967

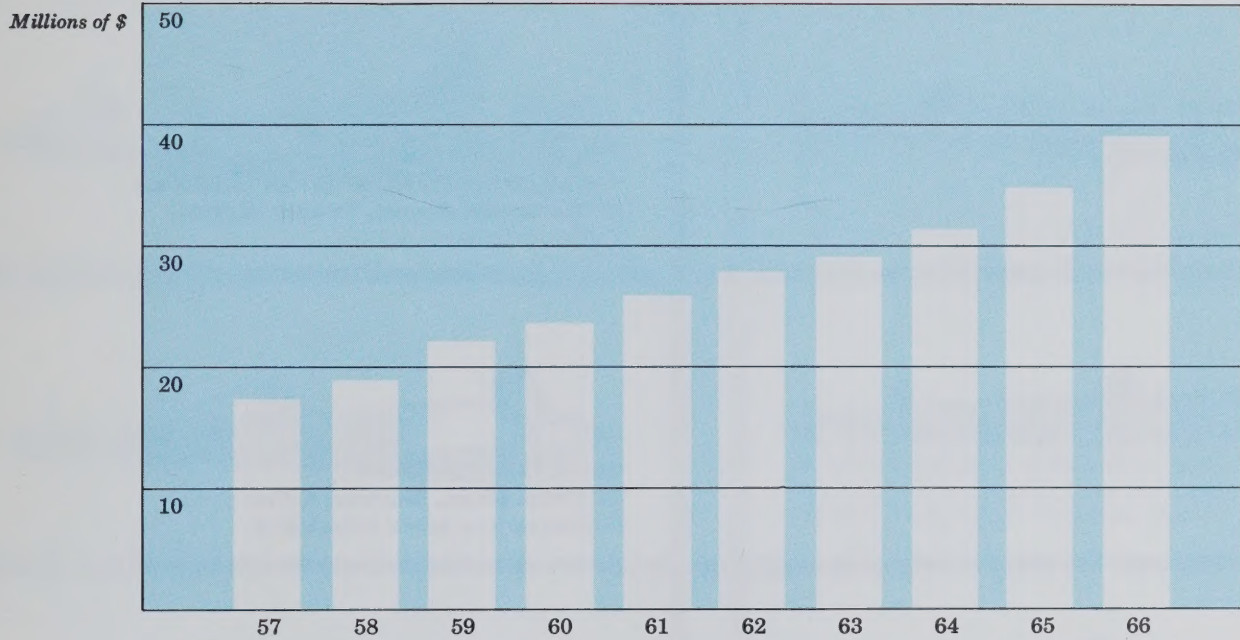
THORNE, MULHOLLAND, HOWSON & McPHERSON
Chartered Accountants.



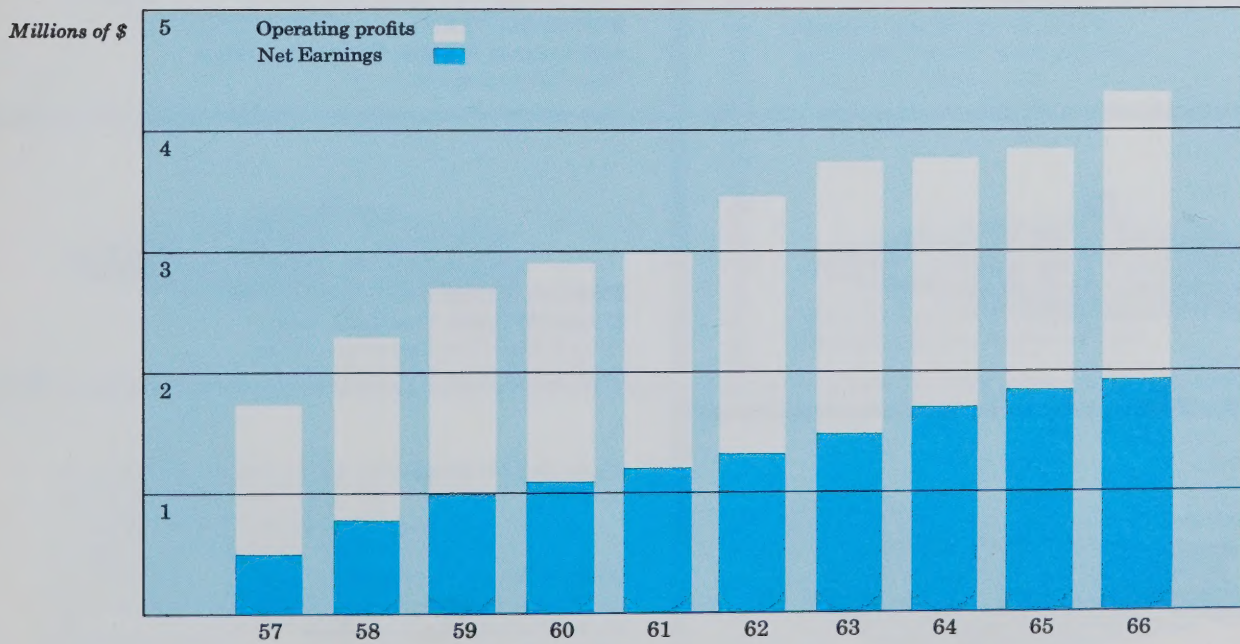
Ten Year Comparison

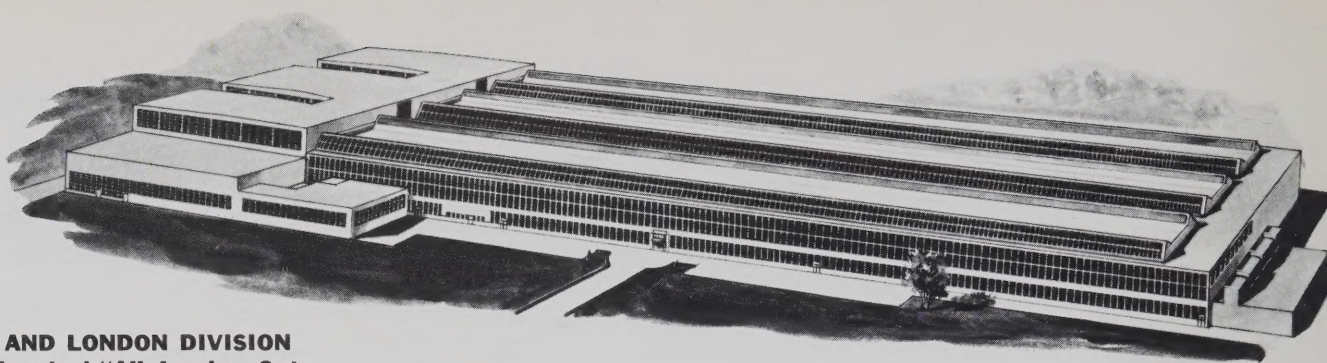
Year	NET SALES	OPERATING PROFITS	NET EARNINGS FROM OPERATIONS
1957	\$18,354,640	\$1,748,486	\$ 577,827
1958	19,513,044	2,201,503	806,312
1959	21,540,484	2,615,631	1,014,018
1960	23,322,163	2,858,450	1,100,335
1961	25,193,720	3,092,851	1,141,095
1962	28,308,774	3,487,433	1,317,018
1963	29,005,827	3,715,588	1,489,899
1964	31,279,679	3,716,039	1,648,705
1965	34,471,425	3,745,584	1,819,994
1966	39,712,731	4,273,957	1,874,868

Ten Year Sales Comparison



Ten Year Earnings Comparison





HEAD OFFICE AND LONDON DIVISION
P.O. Box 2760, Terminal "A", London, Ont.
 Folding cartons, set-up boxes, bags, games, puzzles.



CANADIAN FOLDING CARTONS LIMITED
188 Cartwright Avenue, Toronto 19, Ont.
 Folding cartons.



CONSOLITH DIVISION
865 Hodge Street, Montreal 9, Que.
 Folding cartons, labels, lithography.



WINNIPEG PLANT
1885 Sargent Avenue, Winnipeg 3, Man.
 Pure-Pak containers.



DISPLAY DIVISION
11 Lesmill Road, Don Mills, Ont.
 Point of purchase displays in plastic, paperboard, wire, metal and wood.



STRATHMORE DIVISION
Strathroy, Ont.
 Party crackers, paper novelties and decorative centre pieces.



Somerville Directory



SOMERVILLE PLASTICS DIVISION

376 Orenda Road, Bramalea, Ont.

Plastic coffee cups, toys and novelties, custom injection molding, blow molding and vacuum forming.



PANEL DIVISION—SCARBOROUGH

20 Bertrand Avenue, Scarborough, Ont.

Automotive interior trim, fabricated hardboard and plywood, compression molded plastics.



PANEL DIVISION—WINDSOR

2744 Edna Street, Windsor, Ont.

Automotive interior trim.



SOMERVILLE AUTOMOTIVE TRIM LIMITED

2744 Edna Street, Windsor, Ont.

Sales Offices situated at all manufacturing divisions and at the following locations:

HAMILTON: 477 Main Street East

GUELPH: 9 Oak Street (P.O. Box 331)

MONCTON: P.O. Box 1106

PETERBOROUGH: 166 Brock Street (P.O. Box 325)

Representatives:

NEWFOUNDLAND: N. C. Hutton, Ltd., St. John's

QUEBEC: Henri Gauvin, Quebec City

Marcel Messely, Quebec City

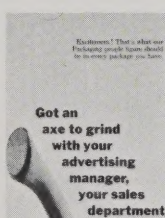
ONTARIO: Mid-West Paper Limited, Port Arthur
Snelling Paper Sales Limited, Ottawa

PRAIRIE PROVINCES: Crown Zellerbach Canada Ltd., Winnipeg
Mid-West Paper Limited, Winnipeg
Paper Agencies Limited, Winnipeg

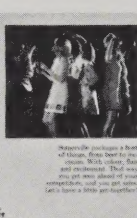
COAST-TO-COAST:

Games Sales—Frank E. Lucas and Company, Toronto
Party Cracker Sales—Harry Adelman Agencies, Toronto

Scope



**Got an
axe to grind
with your
advertising
manager,
your sales
department,
your production
department
or your worst
business rival?**



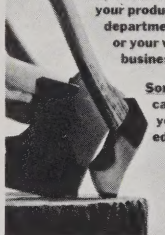
Somerville promises a host of benefits, from Dept. to executive. With sales, advertising and promotion. That way, you get new ideas of your competitors, and you get sales, just to name a few. And you get together!

Mr. Somerville de somerville
 make a pair of glowing horns, you
 package a whole lot of things just for the
 package. You can get a whole lot of things
 to make into a whole lot of things, but it's
 packaged for S.M. A team in history?

Don't Somerville de somerville
 separate. With you, you
 for every single word, you
 can be in the U.S. And they make
 like him and love for
 all kinds of things. It's
 for Hollywood.







**Somerville
can give
you the
edge.**



**Never let your competitors
 get away with you. You
 just make sure they're
 not in the same line of
 business as you. Look
 for them on the Yellow
 Pages. From coast to coast.**

**Some places frankly don't need
 Somerville's Pearl Division. But
 even so, for business and other
 reasons, you can't afford to
 profit in many industries and cities.**

**We make sure you
 design as
 quickly
 as possible
 for the
 market.
 You'll
 know
 what
 you
 need.**



**Are the makers' make? Our design
 are important. Your design
 package that make your
 project. Look right
 and into the
 situation and see what
 that actually, are good.**



**Don't tell your worst business
 rival your secrets. It's
 located in the full state.
 Most of the state is
 located and there are plenty in
 Montreal, Toronto, Hamilton,
 Waterloo, Windsor and Winnipeg.**

[illegible]

Growth

**Call
Somerville if you need
packaging or plastics,
games, novelties,
panels, displays,
or just a
chat.**

Check?

Check!

Let's workers appreciate us. We make plastic
money cups. We also make custom-made plastic
travels, letters, computer, business
and book mailers. And things like
plastic shopping bags.
Maybe I can give you a call
you made a habit for work on life?

Today, the party came
and you have a lot of
new and interesting
ideas and plans. There
are a lot of things to offer.
And not always have
quite all the competition.

Nothing drives us at Somerville. For instance,
we're in the packaging world. But if you want
to automate your packaging, we'll
make a packaging machine. Like an
example with your packaging problem?

Make a movie to your
customers. We can
write. There's no
your name and logo in the
Video Film. Somerville
has a video camera. We can
film in London, Victoria and
other in America, Toronto,
Montreal, Quebec, Windsor
and Niagara. All made to film.

I've been an art of the plastic
package for today's women's market.
We need the look and feel, and deliver
it. We don't have
any more space
that women
will buy. And
that isn't just my
opinion.

More plastic custom
books for the business
industry. We have
a lot of Plastic
Displays. We do
plastic for home and
gifts or a call
you have a game
problem. We can make
beautiful home (optics)

We've got some of
the most of the best
designers in the One
Million dollar plastic
business. They believe that
the plastic industry is
new. That's why I'll
invest more than the
plastic industry. I'll
invest in the plastic
business. Call me at 1-800-
W-1111. We're only
pretending the other!



Somerville Industries Limited